

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

1st Financial Services Corporation / Mountain 1st Bank & Trust Company

Point of Contact:	Michael G. Mayer	RSSD: (For Bank Holding Companies)	3715257
UST Sequence Number:	2	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	16,369,000	FDIC Certificate Number: (For Depository Institutions)	57763
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	November 14, 2008	City:	Hendersonville
Date Repaid ¹ :	N/A	State:	North Carolina

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

The proceeds from the CPP have been used to fund the operations of the Bank. The operations supported by CPP funds primarily include the continuation of the Bank's lending, deposit gathering, and community investment activities.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

The CPP funds have supported the Bank's fulfillment of its chartered mission of serving the borrowing needs of our local markets. Major lending initiatives have been focused on residential mortgage lending and small business lending.

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X Increase securities purchased (ABS, MBS, etc.).

The equity provided through the CPP supported the purchase of \$178.1 million of investment securities during 2010.

X Make other investments.

The CPP funds have supported the Bank's continued community outreach, including CRA lending.

X Increase reserves for non-performing assets.

The equity provided by the CPP funds permitted the Bank to increase reserves by \$12.5 million for nonperforming assets during 2010.

X Reduce borrowings.

During 2010, \$66 million of Federal Home Loan Bank borrowings were repaid.

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☒ **Increase charge-offs.**

The equity provided by the CPP funds permitted the Bank to charge off \$24.5 million of nonperforming loans. Additionally, the Bank was able to absorb write-downs and losses totaling \$2.3 million associated with other real estate owned and repossessed assets

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Without the purchase of preferred stock through the CPP and given the extreme disruption in the private equity markets, the likely alternative for the Corporation and the Bank would have been to aggressively curtail lending activities even further reduce existing portfolio levels. However, as a result of the purchase of preferred stock via CPP, we have been able to continue lending and investment in our local communities. Toward that end, the Corporation's board of directors approved a strategic addition to our existing business plan in early 2009, to expand our small business lending via the recruitment of several SBA and USDA loan production specialists. As the SBA leading lender headquartered in western North Carolina, we believe this newer business line has allowed us to leverage our small business lending expertise and extend an estimated \$20.8 million in new SBA and USDA loans to small businesses in 2010.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The CPP funds made it possible through September 30, 2009, for both the Corporation and the Bank to maintain regulatory capital at or above "well capitalized" thresholds with both the FDIC and the Federal Reserve Bank of Richmond, our primary federal banking regulators, and continue to serve our communities' lending and depository needs without curtailment. Principally due to the increase in reserves for nonperforming loans in the fourth quarter of 2009, the Bank was categorized as "adequately capitalized" under the regulatory framework for prompt corrective action as of year-end 2010. The Bank has been able to maintain it "adequately capitalized" classification through March 31, 2011, through the equity provided by the CPP funds. During 2010, CPP funds supported the fulfillment of the Bank's chartered mission of serving the borrowing needs of our local markets via the origination of 1,179 new loans amounting to approximately \$231 million, consisting primarily of 1-4 family residential mortgage and construction loans of \$157 million, consumer loans of \$2 million, and USDA and SBA loans of \$21 million. The sale of approximately \$115 million of 1-4 family residential mortgage loan originations on the secondary market further enabled the Bank to have the resources to serve the needs of additional individuals and businesses. The Bank supports the depository needs of the communities we serve as evidenced by an increase of \$34.6 million, or 13.4%, in core deposits. The Bank also developed several special residential mortgage programs to assist service workers and medical practitioners in purchasing homes, whereby they otherwise would have been unable to fulfill their dreams of home ownership. The Bank also worked with delinquent residential borrowers to avoid foreclosure, helping people stay in their primary residences.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.